

MEMORANDUM 9/25/75

To: Senator
From: Kim
Re: Proposed Food Stamp Reform Bill

Attached is summary of proposed food stamp bill. The summary is somewhat lengthy, but I made it as short as possible in light of the complexity of the bill. [Just the same, I have highlighted the most important passages in the summary and if you don't have time to read the full summary, suggest you scan Provisions (1) through (4), since they are the most important in terms of cost.]

I really believe this is a strong, moderate bill, the provisions of which lead directly to a call for comprehensive welfare reform. With the exception of elimination of the purchase requirement (Item [2] on the summary), every other major provision of the bill will reduce expenditures under the program. And even the purchase price elimination will save tens of millions of dollars in administrative expenses.

Most importantly, the bill puts a lid on the program by imposing, via the standard deduction, maximum net income limits for participation in the program.

-0-

Senator McGovern would like to join you as a cosponsor of this bill; it would be introduced by you with McGovern as the cosponsor.

I believe that this compromise approach will be quite close the reform bill which finally emerges from the Senate. By compromising at the outset -- and with a commitment from McGovern (who has never lost on a food stamp bill and who presumably could hold the liberals in line) not to attempt to make the bill more costly, you could get credit for the final bill. The alternative, favored by Hyde Murray, is to start out very conservative and then compromise with the liberals (since in the absence of this compromise approach, McGovern, Humphrey, et al would undoubtedly introduce a more liberal bill). The trouble I see with this approach is that the final could easily be more liberal than this one -- and you would not get (or want) credit for this major reform of the food stamp program.

SENATOR DOLE:
FOOD STAMP PROPOSAL

[Major Provisions:]

(1) Elimination of Itemized Deductions; STANDARD DEDUCTION. The present system which permits an applicant to deduct from gross income a variety of expenses (alimony, child care, union dues, etc.) would be eliminated. Itemized deductions now result in some "higher" income persons qualifying for food stamps since the deductions permit "high" gross incomes to be reduced to net incomes which meet the maximum income eligibility standards. Moreover, itemized deductions cause great delays in certifying applicants.

Thus, the proposal substitutes a single STANDARD deduction to replace the itemized deductions. The level of the deduction is \$125 per month, plus an additional \$25 per month for households which contain at least one elderly recipient.

The STANDARD deduction places the following MAXIMUM cash (after tax) incomes under which a person could qualify for food stamps:

- (i) 4-person household
Non-elderly \$7780
Elderly \$8080
- (ii) 2-person household
Non-elderly \$4900
Elderly \$5200
- (iii) 1-person household
Non-elderly \$4080
Elderly \$4380

Note: From \$4080 down to \$3020, there is a fixed benefit of \$10.00. Only incomes below \$3020 receive more than \$10.00.

Cost of the STANDARD deduction: Under this formula, persons with lower incomes will receive higher benefits than under the current system; persons with higher incomes will receive less benefits. Some "higher" income persons will be cut off altogether.

USDA estimates that this STANDARD deduction (which will be varied upward or downward by region of the country) will result in total monthly benefits being reduced slightly. Moreover, since the USDA estimate does not take into account limitations on assets, the total monthly payout will be reduced even more. Guesstimate: \$100-\$200 million annually.

Advantages of the STANDARD deduction: Not only does this deduction formula put a lid on benefit outlays (and, in fact make some reductions) it also greatly simplifies the application process (and negates the need for more controversial stop-gap measures which expedite the certification process, i.e. "self-certification" provisions). Some administrative cost savings could be expected in addition to reduction in benefit expenditures.

Political implications of this provision: The STANDARD deduction outlined above is moderate in relation to other proposals which will be considered by the Agriculture Committee. It is more liberal than the bill introduced by Senator Buckley in the sense that it allows more persons to remain on the program; it is more conservative than the Buckley bill in that the level of benefits to those similarly situated is less under this proposal. The proposal is more conservative than the standard deduction bill introduced by Senators Chiles, Glenn, et al last week in that the level of benefits and total benefit outlay is substantially less. It will probably be more liberal than the bill which will be submitted by the Administration.

A final note on the standard deduction: The level of the deduction proposed here is taken from one of the three USDA recommendations contained in the report submitted in response to S.Res.58. (Moreover, since the level of standard deduction is regionalized in the proposal, it is actually cheaper than the high option proposed by USDA in its report.)

[Major Provisions (cont'd):]

(2) Elimination of the Purchase Requirement. Under current provisions of the Food Stamp Act, eligible persons must purchase their stamps. (E.g., a family of four with net income of \$250 would pay \$71 for a monthly allotment of \$162 worth of food stamps). The proposal would completely eliminate the purchase requirement. Illustration:

Family of four with net income of \$250. Under current tables they are eligible for \$162 allotment of stamps for which they pay \$71, thus receiving \$91 worth of free stamps. Under the proposal, that same family (using the standard deduction) would get \$87 worth of stamps, all free.

Advantages of Eliminating the Purchase Requirement: First, the cost of administering the program would be reduced substantially since no money would change hands. Second, only about half as many stamps would have to be printed as under the current program, thus reducing the number of stamps in circulation and cutting down on the thriving black-market for food stamps. Third, since recipients would not be forced to commit as much of their budget for food, there would not be as many purchases (at taxpayer's expense) of junk foods, and more money could be freed up for purchases of other necessities (and, admittedly, other types of "junk").

Possible drawback: Since recipients would no longer have to put up a large lump sum of money in order to buy stamps, it may encourage some who do not now participate but who are eligible to apply. If these are extremely poor persons who simply cannot get enough money together to buy their stamps, that may not be a bad thing if the purpose of the program is to help the truly needy. (Of course, cost is cost as far as the budget is concerned).

On balance, elimination of the purchase requirement appears to be advisable since it will substantially reduce administrative overhead -- a major problem with all social welfare programs -- and is definitely a step in the direction of eliminating the entire program in favor of a consolidated national income maintenance plan which will replace the present amalgam of social programs.

Cost of Eliminating the Purchase Requirement: Hard to measure precisely. Administrative savings could run into the tens of millions of dollars. Increased participation could offset these savings, however.

Political Implications of this Provision: No other similar proposal advanced so far but the White House reportedly has it under consideration as a possible option.

[Other Provisions]:

(3) Anti-Student Provision. The proposal makes permanent the ban on participation in the program by students 18 years of age or over who are properly claimed as a dependent child for Federal income tax purposes by a parent or guardian who is not eligible for food stamps.

The proposal does not cut off students who are from families which do qualify for food stamps since they would be eligible if they were not students. It should eliminate participation by middle-class students barring outright fraud by the applicant.

Senator Buckley's bill would go further and categorically eliminate students under any circumstances. The drawback to that approach is that it could effectively deny a college education to a poor person -- an education which will presumably make that person better able to take care of himself in the future (and off welfare).

Cost implications: Should save some money but since statistics from USDA show that student participation is already less than 1% of total case-load, this does not involve a lot of money, i.e. a few million dollars.

[Other Provisions]:

(4) Elimination of Categorical Eligibility of Welfare Recipients:

Under present law, households receiving federal public assistance are eligible for food stamps without regard to income, and part of any income they earn is disregarded in determining the amount of their public assistance grant and their continued eligibility for both public assistance and food stamps. As a result, some of these households have incomes in excess of the income standards for the food stamp program but continue to receive benefits under the program. This means that many public assistance households pay a smaller portion of their incomes for food stamps than some identical sized non-public assistance households that have smaller incomes.

The proposal eliminates this unfair advantage for public assistance households. Under the proposed bill, they would have to meet the same eligibility criteria as the working poor who receive food stamps.

This is in accord with the General Accounting Office recommendation contained in the report on food stamps which you requested.

Cost implications: Should save money in the 30 states in which this unfair situation now exists and will eliminate some persons from the program (all, incidentally, who receive other forms of welfare already). Unable to estimate precise cost savings.

[Other Provisions]:

There are about one dozen more minor provisions in the bill. Several evolve directly from USDA recommendations contained in the report to the Congress (S.Res.58).

One provision would direct the Secretary of Agriculture to conduct a survey of households participating in the program for the purposes of determining the assets held by such participants. (No data is presently available on which to base legislative revisions; when the results of this survey are received, further legislation can be introduced which will undoubtedly lead to further reductions in expenditures for the program).

Another provision reduces the misdemeanor fraud penalties in the Food Stamp Act from \$5000 to \$1000 in accordance with a USDA recommendation. The purpose of this apparent reduction in penalty is to encourage more prosecutions for minor (e.g. \$100 or less) violations of the law.

Another provision requires administrators to include some nutrition education in the program, hopefully to result in more nutritious purchases of food by recipients (and fewer purchases of junk foods).